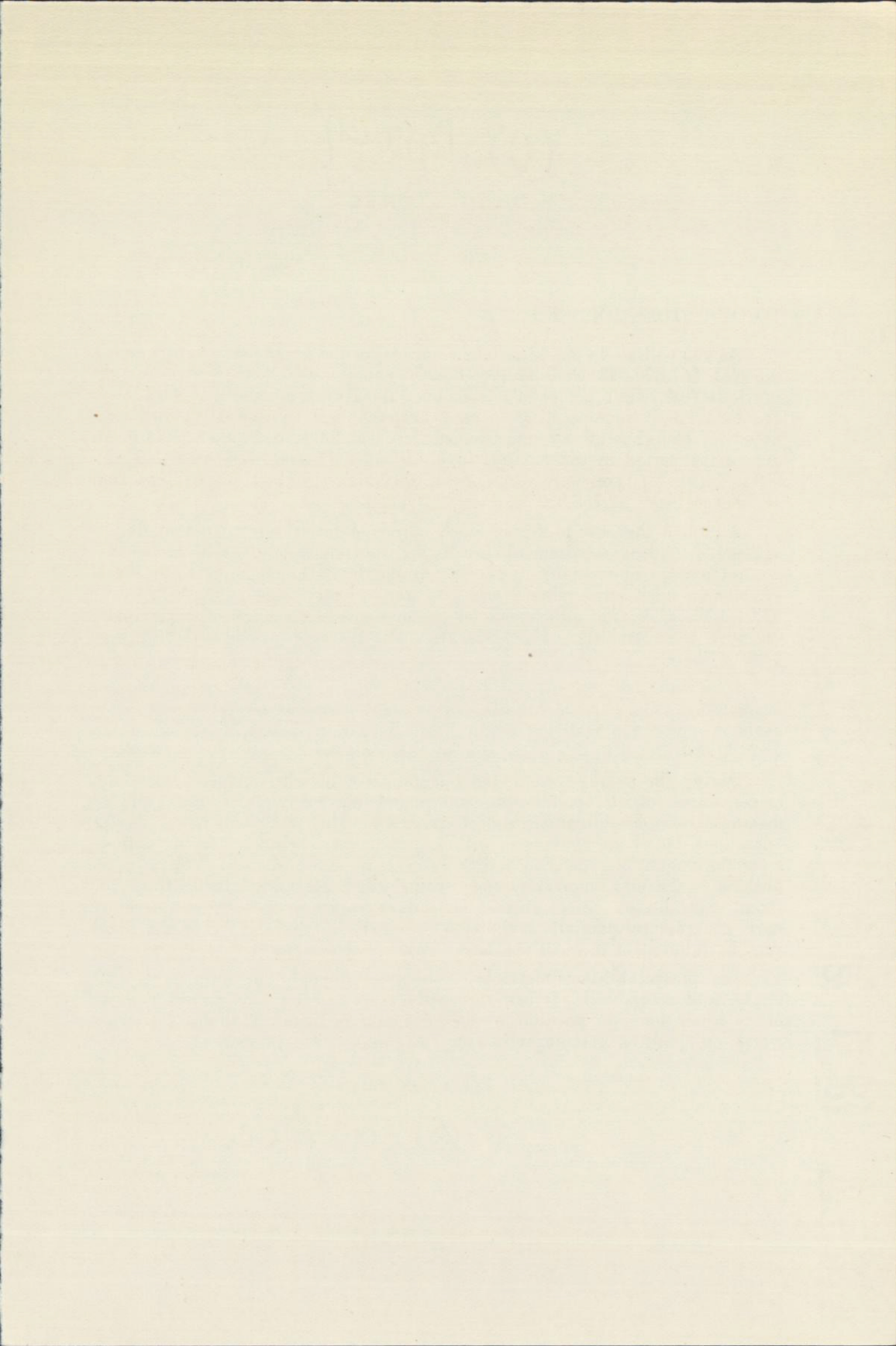


Walgreen

DRUG STORES

WALGREEN CO.
REPORT TO STOCKHOLDERS
Year Ended
September 30, 1937

(Circular stamp)



Walgreen

DRUG STORES

CHICAGO

November 19, 1937.

TO OUR STOCKHOLDERS:

As you will see in the financial statements for the fiscal year recently ended, sales of \$67,890,138 were \$6,106,185, or about 9.9%, higher than for the previous year, while net profits from operations were higher by \$366,421, or about 11.4%. Non-operating income, however, was substantially lower, our policy of charging off all improvements to leaseholds and other betterments during the period in which made involved much heavier write-offs, and provisions made for taxes were very considerably higher. Final net earnings after all charges were \$2,755,822 against \$2,784,903 last year.

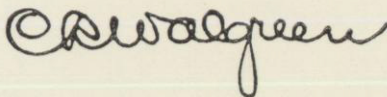
Although the new preferred stock carries a lower rate than the old, its aggregate dividend requirements are higher, and much of the new money has not yet had an opportunity to become productive. On the number of shares of common stock outstanding a year ago, earnings for the year then ended were \$3.04 a share, or after adjustment for common shares since issued—principally the 50% stock dividend—\$1.95 a share. For the year just closed they were \$1.87 a share.

Dividends paid during this last fiscal year, on the basis of shares now outstanding, were equal to \$1.66 $\frac{2}{3}$ per share. Because of special credits applicable in connection with the recent financing, we are advised that no surtax upon undistributed profits is payable by the company.

During the year we continued our program of entering new cities with larger stores, of air conditioning and remodeling many older units, and of making certain consolidations and eliminations. This was costly as to current operations, but, I am convinced, will be productive. While we shall continue a certain amount of expansion and betterment, we aim now to concentrate upon pushing to the maximum point the benefits which are materializing from our recent expenditures. Since another sixty days from now will see our development program substantially completed, we shall for the balance of the fiscal year be relieved of most of the heavy costs of development.

The present business outlook is obscure, although our business is currently holding up well. If better conditions are coming soon, I feel that we are in better-than-ever position to take advantage of them. If things are to get worse, our position is stronger in every way than it was in 1929.

Yours very truly,



President.

ARTHUR ANDERSEN & Co.

135 SOUTH LA SALLE STREET
CHICAGO

To the Board of Directors,
Walgreen Co.:

We have made an examination of the consolidated balance sheet of WALGREEN CO. AND SUBSIDIARY COMPANIES as at September 30, 1937, and of the statements of consolidated profit-and-loss and surplus accounts for the year ended that date. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related statements of profit-and-loss and surplus accounts fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, the financial position of the companies at September 30, 1937, and the results of their operations for the year ended that date.

Arthur Andersen & Co.

Chicago, Illinois,
November 15, 1937.

WALGREEN CO. (AN ILLINOIS CORPORATION)
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS:

Cash in banks, in transit and on hand	\$ 5,326,302.10
Tax-anticipation warrants, at cost (quoted market price \$100,000)	100,409.07
Accounts receivable, less reserves	756,787.18
Negotiable warehouse receipts for merchandise in public warehouses	220,159.62
Inventories of merchandise, priced at the lower of cost or market; based on physical inventories taken continuously throughout the year, quantities and condition determined by the company	10,003,560.48
TOTAL CURRENT ASSETS	\$16,407,218.45

PREPAID RENT (INCLUDING ADVANCES TO LESSORS), INSURANCE, TAXES, ETC.	1,087,601.77
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INVESTMENTS AND OTHER ASSETS:

Stocks and bonds in other companies, at cost	\$ 472,894.25	
Preferred stock of Walgreen Managers Investment Co., at cost....	50,000.00	
Note receivable from Walgreen Managers Investment Co., secured by 44,603 shares of Walgreen Co. common stock	934,000.00	
Notes receivable from sale of assets, less reserves.....	148,899.36	
Other receivables, etc., less reserves	53,907.73	
Cash surrender value of \$725,000 insurance on life of C. R. Walgreen, president	217,125.60	1,876,826.94

FIXED ASSETS:

Classification	Cost, Less Write-downs in Prior Years	Reserves for Depreciation	Net	
Land	\$ 670,951.64	\$ —	\$ 670,951.64	
Buildings	1,285,651.37	208,734.10	1,076,917.27	
Equipment	11,216,863.35	4,417,335.88	6,799,527.47	
	\$13,173,466.36	\$4,626,069.98	\$8,547,396.38	8,547,396.38

GOODWILL, LEASEHOLDS, LEASEHOLD IMPROVEMENTS, ETC., at nominal value	1.00
	\$27,919,044.54

ILINOIS CORPORATION)

RY COMPANIES

HEET—SEPTEMBER 30, 1937

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	\$ 2,203,056.26
Employees' investment certificates	58,000.00
Accrued payrolls, rentals and other expenses	373,648.10
Accrued taxes; real estate, personal property, sales, social security, etc.	610,368.96
Reserve for Federal income taxes (subject to final review and determination by the Treasury Department)	470,370.94
TOTAL CURRENT LIABILITIES	\$ 3,715,444.26

CONTINGENT LIABILITIES:

Under Federal income taxes for prior years, and in connection with pending lawsuits, etc., estimated by the company not to exceed \$ 200,000.00

Under other agreements: A trustee acting for a group of employees of the company, in August, 1936, purchased certain shares of Walgreen Co. common stock, principally from an estate, and sold this stock to such employees under deferred payments; 37,000 shares have been pledged by the trustee to secure repayment of bank loans. Walgreen Co. has agreed that it will, in event of default on the part of the trustee, repurchase such shares for an amount equal to the unpaid amount of such loans 492,000.00

CAPITAL STOCK AND SURPLUS:

Preferred stock, 4½% cumulative, par value \$100 per share, with warrants attached for the purchase on or before September 15, 1943 of common stock at prices varying from \$34.00 to \$44.00 per share; redeemable on call or in voluntary liquidation at premiums varying from \$7.50 to \$4.00 per share—
 Authorized and outstanding 100,000 shares \$10,000,000.00

Common stock without par value—
 Authorized 2,000,000 shares (100,000 shares reserved against exercise of warrants attached to 4½% preferred stock)
 Issued 1,336,963 shares (including 44,172 shares in treasury) 11,853,567.58

Earned surplus (restricted in an amount equal to two years' dividends on 4½% preferred stock)..... 2,719,488.30
\$24,573,055.88

Deduct—Treasury common stock, 44,172 shares, at cost 369,455.60 24,203,600.28

\$27,919,044.54

**WALGREEN CO. (AN ILLINOIS CORPORATION)
AND SUBSIDIARY COMPANIES**

**CONSOLIDATED PROFIT-AND-LOSS ACCOUNT
FOR THE YEAR ENDED SEPTEMBER 30, 1937**

Particulars	Amount
GROSS SALES, less returns and allowances.....	\$69,054,278.75
Less—Provision for sales taxes	1,164,140.69
Net sales	<u>\$67,890,138.06</u>
COST OF SALES	43,608,504.61
Gross profit on sales	\$24,281,633.45
OTHER OPERATING INCOME	210,673.96
Total	<u>\$24,492,307.41</u>
OPERATING EXPENSES:	
Selling, advertising and occupancy	\$20,097,934.64
General and administrative	809,728.69
	<u>20,907,663.33</u>
Net profit from operations	<u>\$ 3,584,644.08</u>
OTHER CHARGES AND INCOME:	
Other charges—	
Improvements to leased properties	\$ 385,931.30
Lease cancellation payments and expenses	5,938.77
Capital stock and franchise taxes, etc.	84,615.00
Miscellaneous	17,116.84
Total	<u>\$ 493,601.91</u>
Other income—	
Additional profit on prior year's sale of claims against another corporation, etc.	\$ 155,406.47
Profit on sale of securities (net)	39,394.77
Dividends received	27,738.65
Miscellaneous	25,313.70
Total	<u>\$ 247,853.59</u>
Net profit before provision for Federal income taxes	<u>\$ 3,338,895.76</u>
PROVISION FOR FEDERAL INCOME TAXES:	
Provision on current year's net income (Note 2)	\$ 466,142.93
Additional provisions for prior years including interest ...	116,930.63
	<u>583,073.56</u>
Net profit carried to earned surplus	<u><u>\$ 2,755,822.20</u></u>

NOTES:

- (1) The provision for depreciation of buildings and equipment for the current year was \$783,674.29. In addition, amortization of short life equipment, which substantially represents current expenditures, amounted to \$312,369.51.
- (2) Because of credits applicable in connection with the company's recent refinancing, no surtax on undistributed profits is believed to be payable.

WALGREEN CO. (AN ILLINOIS CORPORATION)
AND SUBSIDIARY COMPANIES

CONSOLIDATED EARNED-SURPLUS ACCOUNT
FOR THE YEAR ENDED SEPTEMBER 30, 1937

BALANCE, SEPTEMBER 30, 1936		\$7,142,295.95
NET PROFIT FOR THE YEAR ENDED SEPTEMBER 30, 1937		2,755,822.20
		\$9,898,118.15
DEDUCT:		
Cost of refinancing—		
Premiums on 6½% preferred stock redeemed May 24, 1937	\$ 530,881.00	
Dividends on 6½% preferred stock from March 24, 1937, date of call, to date of redemption	23,041.35	
Underwriting commission less premium on 4½% preferred stock issued	132,789.00	
Other refinancing charges	78,562.72	
	\$ 765,274.07	
Dividends paid—		
On 6½% preferred stock to March 24, 1937....	\$ 127,556.95	
On 4½% preferred stock March 24 to Sep- tember 15, 1937	213,745.04	
On common stock—		
In cash; 50 cents per share paid Novem- ber 2, 1936, February 1, 1937, May 1, 1937 and August 1, 1937	2,120,859.00	
In stock; 50% dividend of 445,654½ shares paid March 9, 1937 at the then stated book value of common shares, \$8.866 per share	3,951,194.79	
	6,413,355.78	7,178,629.85
		\$2,719,488.30
BALANCE, SEPTEMBER 30, 1937		

DIRECTORS

ARTHUR S. BOWES	ROBERT G. KNIGHT
JUSTIN W. DART	ROLAND G. SCHMITT
HARRY GOLDSTINE	CHARLES R. WALGREEN
JOY H. JOHNSON	CHARLES R. WALGREEN, JR.

JAMES E. WARD

OFFICERS

CHARLES R. WALGREEN	President
HARRY GOLDSTINE	Vice-President
CHARLES R. WALGREEN, JR.	Vice-President
ROLAND G. SCHMITT	Vice-President & Secretary
ELMER E. RUECKERT	Treasurer
WILLIAM G. JOHNSTON	Ass't Sec'y
BERT O. PINCH	Ass't Sec'y

COMMON STOCK

CHICAGO

Transfer Agent
FIRST NATIONAL BANK

Registrar
HARRIS TRUST & SAVINGS BANK

NEW YORK

Transfer Agent
COMMERCIAL NATIONAL BANK &
TRUST CO.

Registrar
GUARANTY TRUST CO.

PREFERRED STOCK

CHICAGO

Transfer Agent
FIRST NATIONAL BANK

Registrar
HARRIS TRUST & SAVINGS BANK

NEW YORK

Transfer Agent
GUARANTY TRUST CO.

Registrar
COMMERCIAL NATIONAL BANK &
TRUST CO.

